



SECURITIES SERVICING
Corporate Trust Services

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A Long-Term Relationship

California Debt and Investment Advisory Commission Fundamentals of Debt Financing

Presented by:

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What We'll Cover

- Role of Trustee or Agent
- Default
- Professionalism of Your Trust Administrator
- Administrative Duties of a Trustee or Fiscal Agent
- Pre-Closing Discussions With Your Trustee
- Your Trustee, Fiscal and Paying Agent

What We Do The Role of The Trustee or Agent

- Simple to complex roles — levels of involvement depend on type of financing
- Paying Agent — payment of principal and interest to your bondholders
- Fiscal Agent — in addition to paying agent duties, perform certain administrative duties on Issuer's behalf
 - Primary recordkeeping/tracking of bond proceeds. Custodian of investments representing bond proceeds. Maintenance of reserve, project, and debt service funds.
 - Monitor and collect compliance documentation or covenants required under the financing documents
- Trustee — in addition to Paying Agent & Fiscal Agent duties, perform fiduciary responsibilities in pursuing remedies of bondholders in the event of default by the issuer

Default — Trustee Becomes “Prudent Person”

- Protecting the interest of your bondholders
 - Pursue remedial provisions under the indenture
 - Notices of default and bondholder communications
 - Creditors’ committee
 - Acceleration of bonds
 - Exercise of ownership on collateral held

How do you choose your trust professional?

- Professional trust administrators should be an extension of your office. Make certain you select your trustee based upon experience, professionalism and resources, not just price.
- What skills do they/should they possess?
 - Legal knowledge and document review skills
 - Understanding of investments and settlement process
 - Accounting skills
 - Systems knowledge
 - Communication skills
 - Organizational skills
- In general, they should possess a wealth of information related to your bond issue. Get them to share this knowledge with you. It can make your job easier.

Administrative Duties of a Trustee or Fiscal Agent

Our Agency Functions . . . an Extension of You

- What does the trustee do for you...?
 - Construction fund accounting; manage payment of requisitions as you build your project.
 - Administer funds established under the indenture
 - Debt service billing and collection of revenues or payments for eventual payment to bondholders
 - Custodian/safekeeping agent of bond proceeds
 - Compliance manager

The Construction or Project Fund Phase

- Payment of requisitions as you build your project
- Requisition disbursements requirements
- Authorized disbursements and signatures required
- Vendor payments and timing requirements
- Payments to vendors vs. reimbursement to issuer
- Completion certificates

Establishment of Trust Accounts

- Administration of Trust Funds established under the indenture
- How many do you really need/want?
- Accounting processes...project fund to track payments made to vendors
- Proper tracking and transfer of interest earnings
- Proper tracking of the re-payment process ...waterfall through funds
- Internet or online access to view your activity and assets held in trust
- How often do you need your statements, what about other departments and auditors?

Debt Service Process

- Debt service billing and collection of tax revenue, lease payments, etc. from issuer, for eventual payment to bondholders
- Fixed vs. variable rate processes
- Debt service schedules
- Sinking fund requirements
- Payment due dates and timing requirements
- Credits via interest earnings or capitalized interest
- DTC Book-entry — only you and your bondholders

Investment of Trust Funds

- The investment of bond proceeds
- Permitted investments
- Settlement procedures and timing requirements
- Tracking market value of investments, such as GIC's, or LAIF vs. standard investments
- A trustee is not an investment advisor

Compliance Monitoring and Disclosure

- Tracking covenant requirements under the Indenture
- Tickler system to track what continuing documentation, reports and certificates you need to provide the trustee (ultimately they are built in protections for your bondholders)
 - Insurance certificates vs. Statements
 - Budgets and preliminary budgets
 - Annual reports for disclosure
 - Disclosure Dissemination Agent
 - Rebate requirements
 - Change in authorized signatories

Pre-closing . . . Before It's Too Late

- Pre-closing . . . The issuer and trustee will have to work within these documents for the next 30 years, make certain they read the way you want them to read. Things to consider . . .
 - the establishment of sub accounts
 - waterfall of revenue or lease payments
 - document and invoice requirements surrounding disbursements for construction funds
 - permitted investment language
 - compliance requirements and documentation required
 - covenant restrictions

Some closing thoughts and questions about your relationship with your trustee . . .

- Many parties move on after the closing. The Issuer and the Trustee are actively involved for the life of the bonds.
- The trustee performs administrative functions on my behalf, which will directly reflect on me, the City/Agency and our bond holders. How am I selecting my trustee (my 30 year partner)?
- I now have a five-inch thick closing transcript binder, with no pictures. How do I organize what is important for the next 30 years?
- What tools or resources does my trustee have which might blend in with what I need?
- This long-term relationship should begin prior to the closing and early on in the document review process

Identify the Right Trustee or Agent...

Your Financing Partner for the Life of the Bonds

What to look for in the Institution and the Individual professionals

- Trustee Services — specialized, not all banks do it anymore
- Commitment Level of the bank or trust company
 - Systems and resources utilized by the front and back office
 - Ability to attract talented professionals
- You pay them an annual fee. What to ask for. What to expect.
 - Perform your job and take care of debt holders
 - Make my life easier and assist me through this process
 - Share of knowledge related to covenant requirements
 - Ensure correct timing of statements, electronic or hard copy
 - Share your specific timing requirements and needs

Don't Hesitate to Contact me with your questions

Frank Sulzberger

Vice President

Western Regional Manager

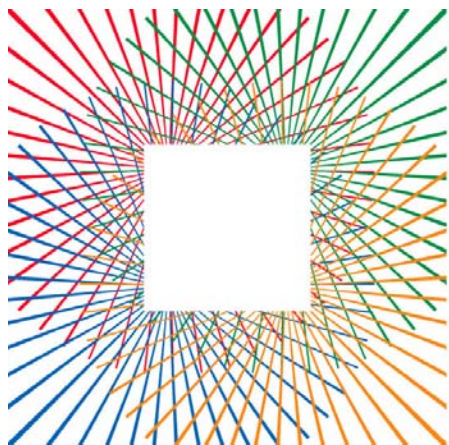
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LUNCH TIME!

